

STOCKTON RECORD

California's Leaders Must Resolve the State's Ongoing Budget Crisis

December 19, 2007

A looming \$14 billion budget deficit has prompted Gov. Arnold Schwarzenegger to announce a "fiscal emergency" special session of the state Legislature in January. The fiscal emergency already is here.

Shortly after the second-latest budget in state history - at \$102.3 billion - was signed in August, Schwarzenegger's staff said the gap between income and expenses in 2007-08 would be \$6.1 billion.

State Treasurer Bill Lockyer tried to get lawmakers' attention in October when he released an unprecedented report on new approaches to handling and planning revenues and expenses.

In November, the predicted budget shortfall jumped to \$10 billion. Now, it's up to \$14 billion.

Once again, California's credit rating on Wall Street is in jeopardy. State officials and lawmakers must find a way to make California's budget process more predictable by eliminating its structural deficit.

That seems impossible.

The Democratic majority in the Legislature won't yield on program cuts and instead calls for higher taxes. Schwarzenegger and his fellow Republicans oppose new taxes and demand program cuts.

Fallout from the dot-com boom - and bust - of the late 1990s continues.

At that time, lawmakers took what turned out to be a short-term windfall and turned it into programs or program expansions that still must be funded.

By 2002, California's \$80 billion budget had a \$20 billion deficit.

A year later, Gov. Gray Davis was recalled by the state's voters.

Schwarzenegger replaced him and proclaimed an era of fiscal responsibility, promising in 2004 to "throw away the credit card" if voters would pass \$15 billion in bonds needed to close the budget gap.

He got the revenue, but still has advocated \$50 billion worth of bonds since.

Interest payments continue to escalate, contributing to the structural deficit.

The revenue shortfall also is linked to declining property taxes as thousands of home-mortgages continue being foreclosed.

If California returns to "junk bond" status, the increased interest rates will compound the problem.

On Friday, Schwarzenegger called the situation "a common thing for California, that we're going on this roller-coaster ride."

We beg to differ. That attitude hardly bodes well for January's special session, when Schwarzenegger will be a pivotal force in reconciling the budget impasse. His policies haven't helped, and it's also possible he could attempt to raid local funding sources as an emergency bailout. That would be wrong. It's up to him to get us off the fiscal "roller coaster" that's keeping the state budget so off-balance.